Statement by Pieter Stek  
Date of Meeting: January 30, 2001

**Indonesia: Country Assistance Strategy**

It is a matter of courtesy to open a statement on a Country Assistance Strategy with praise to the Country Team for its efforts. I do not want to deviate from common practice in this case. Indeed, it is meant to be more than a habitual remark when I say that the new CAS for Indonesia illustrates the movement towards a new openness in the dialogue with the Government of Indonesia very well. The private sector strategy for Indonesia also signals very good co-operation within the Bank Group. I truly commend Mark Baird and his colleagues from the Bank and IFC for a job well done.

I agree with the fundamental choice that has been made in the CAS to continue to support Indonesia, despite the obvious risks stemming from continuing problems with governance, the decentralisation of Government and fundamental economic weaknesses. It is obvious from the comments of the Government that the Bank’s assistance in economic restructuring and fighting poverty is well appreciated. At the same time, I am concerned that the Government does not sufficiently recognise the need to move more quickly on financial and economic restructuring and addressing some key governance problems. Without such actions it will not be possible to implement the Bank’s recommendations and advice on a financial sector strategy and civil service reform in a sustainable manner. Nor would the country be in a position to benefit from the Bank Group’s integrated approach for establishing a framework for private sector development. A second concern that I have is that the Bank needs to maintain a strong presence on the ground to implement the strategy, including in the financial sector. This implies that the CAS should be funded adequately from the Bank’s budget.

**The tone of the CAS**

I really appreciate the open and transparent discussion about the problems in Indonesia as well as the risks to the Bank’s continued involvement in the country. The CAS also clearly highlights the outcome of consultations with civil society and the extent to which there is (dis)agreement. In this regard the CAS could serve as an example to other donors. To a certain extent, the Bank still struggles with the image of having been a collaborateur with the Suharto Government. This CAS shows a new mode of engagement with a focus on poverty alleviation, structural economic reforms, decentralisation and good governance. The CAS is more broadly supported than any similar document before. The Bank uses community based development projects to work with civil society on the ground, but chooses to disagree with the view that privatisation is
undesirable. Being clear about such disagreement signifies a good dialogue.

**Strategic choices**
The CAS rightly puts a lot of emphasis on problems with governance and corruption. Both are an obstacle to economic recovery (resolution of banks, corporate restructuring), economic development (insecure environment for investors) and the implementation of actions to address poverty (“leakage” of public expenditures). In general, the Bank’s response and strategy fit well with the bottlenecks to development in Indonesia and are within the scope of what the Bank can do.

The Bank takes the Indonesian choice to decentralise Government as a given, despite many concerns about governance, the fiscal impact and consequences for service delivery. We fully share these concerns. The intentions with regard to preventing excessive (non foreign) borrowing by regional authorities, generalised guidelines for procurement and controlling budgets as reflected in the letter from the Government are appropriate. The key test will be the extent to which new rules can be effectively implemented and local authorities controlled. The Bank’s support for the implementation of decentralisation in order to help reduce the risks can be very valuable. In this regard, could the team elaborate on the approach to focusing support on specific well performing regions? Would this be similar to the Bank’s approach in India?

**Bank assistance**
The base case assumes a “muddling through” scenario. Obviously, this is far from ideal and one can only hope that the Government will manage to improve upon its current performance. I think the letter from the Government is too optimistic in this regard. The strategic choice to remain involved in the country through lending and technical assistance is right. In addition to moderate new lending a major emphasis should be on improving the quality of the outstanding portfolio and fiduciary controls on Bank lending. These controls have not been good enough in the past. In present circumstances, Indonesia is not in a suitable state for full IBRD funding. Using IDA funds is appropriate provided that there is reasonable certainty that they will be used as intended.

The triggers for the high case include better performance under the IMF program, acceleration of corporate and bank restructuring, some governance measures as well as the initiation of a poverty reduction strategy. These triggers are appropriate even though the ones on governance and participation need to be better defined. I agree that this should be done in a consultative process with the Government because it is difficult to specify the triggers up front. It is important that this process is transparent for both partners in the field and the Board, also because moving to the high case involves an increase in the IDA allocation by USD 200 million annually.

**Partnerships and Bank presence in Indonesia**
In general, the CAS pays adequate attention to donor co-ordination. The crisis has brought donors together in effective partnerships such as the one for Government Reform, which the Bank initiated with UNDP and the Government. In this context, I would like to commend the World Bank for its excellent work on legal and judicial reform within the framework of the partnership. It would indeed be valuable to extend this approach to partnership to other fields of co-operation as the CAS proposes, provided that the Government fully participates and owns the process. Although partnerships take time and energy, they ultimately pay off.
Obviously, in-country presence is essential for co-operation through partnerships, dialogues with Government, civil society and other donors. In this regard, I am concerned that the World Bank office in Jakarta is cutting back on staff. I believe that more manpower is warranted to deal with the quite elaborated programs on poverty reduction, good governance, economic reform and private sector development and the financial sector. The latter particularly should be the focus of priority attention, given the nature of the recent crisis and the risks for the future. The Bank, being a leading development partner in these areas, ought to ensure there is sufficient budget to maintain a significant number of high quality staff on the ground.

**Private sector development strategy**
The Bank's intention to support an enabling environment for private-sector-based development is of crucial importance. Of course, work in this area should include IFC's expertise and I appreciate the way in which the work of various branches of the Bank Group is being integrated in the private sector development strategy for Indonesia. However, I wonder to what extent IFC is already fully equipped to respond satisfactorily to all the urgent needs identified for private sector development, in particular for Small and Medium Enterprises. Also, it occurs to me that the private sector development strategy puts too much emphasis on IFC investments in private infrastructure. There might be little appetite from investors after some egregious failures, including the first claim for MIGA related to a power project. Improvements in the legal framework for private infrastructure and implementation of the rules should probably precede any new investments. Similarly, work on the private delivery of social services could distract from building local capacity in the public sector. At the same time, IFC activities in the financial sector as well as active involvement of IFC in restructuring transactions could be very helpful in energising the private sector and test new legal arrangements for bankruptcy and corporate governance.

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To conclude, I would like to reiterate my support for this CAS and commend staff for this comprehensive, candid and well-focused paper. I agree that the Bank should continue to support Indonesia despite the obvious risks and considerable scope for improvement of performance by the Indonesian Government. I trust that the Bank’s efforts will increase the likelihood that things will go better in Indonesia. I hope that the Government will make good use of the services that the Bank is willing and able to offer.